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The Folly of EU Policy Transfer:

Why the CAP does not fit Central and Eastern Europe

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Abstract

This paper assesses the appropriateness of the European Union's Common Agricultural Policy (CAP) for meeting rural development challenges in the New Member States (NMS). It argues that while the mitigation of structural problems confronting rural areas in these countries is critical to meeting the challenge of effectively integrating Central and Eastern Europe (CEE) into the EU, the CAP is poorly suited to this task. Overall, the CAP was insufficiently reformed to effectively accommodate CEE accession and represents a failure of the EU to adequately adjust from an exclusively Western European institution into an appropriate pan-European organisation.

Keywords: CAP, Rural Development, Enlargement, Central and Eastern Europe

JEL: Q18, R58

Die Absurdität der Politikübertragung in der EU: Warum die GAP nicht zu Mittel- und Osteuropa passt

Matthew Gorton, Carmen Hubbard and Lionel J. Hubbard

Abstract

In diesem Beitrag wird untersucht, wie angemessen die Gemeinsame Agrarpolitik (GAP) der Europäischen Union zur Lösung der Probleme im Zusammenhang mit der Entwicklung ländlicher Gebiete in den neuen Mitgliedsstaaten ist. Es wird argumentiert, dass die Linderung der Strukturprobleme in den ländlichen Gebieten dieser Staaten zwar eine zentrale Rolle für eine wirksame Integration von Mittel- und Osteuropa in die EU spielt, doch dass die GAP für diese Aufgabe schlecht geeignet ist. Insgesamt wurde die GAP für eine wirksame Eingliederung der mittel- und osteuropäischen Beitrittsländer nicht ausreichend reformiert; vielmehr steht sie für das Versagen der EU, sich angemessen anzupassen und von einer ausschließlich westeuropäischen Institution zu einer gesamteuropäischen Organisation weiterzuentwickeln.

Keywords:
GAP
Entwicklung ländlicher Gebiete
Erweiterung
Mittel- und Osteuropa
JEL: Q18, R58

El desatino de la transferencia de políticas de la UE: Por qué la PAC no encaja en Europa central y oriental

Matthew Gorton, Carmen Hubbard and Lionel J. Hubbard

Abstract
En este artículo evaluamos en qué medida es apropiada la Política Agrícola Común (PAC) de la Unión Europea para solucionar los problemas relacionados con el desarrollo rural en los nuevos Estados Miembros. Sostenemos que si bien la mitigación de los problemas estructurales a los que se enfrentan las zonas rurales en estos países es indispensable para superar el reto de una integración eficaz de los países de Europa central y oriental en la UE, la PAC no es nada adecuada para esta tarea. En general la PAC se reformó de modo insuficiente para acomodar eficazmente la adhesión de los países de Europa central y oriental y representa un fallo de la UE que no ha sido capaz de adaptarse adecuadamente desde una institución exclusiva de los países occidentales de Europa a una apropiada organización paneuropea.

Keywords:
PAC
Desarrollo rural
Ampliación
Europa central y oriental
JEL: Q18, R58

1. Introduction

The most recent accessions (2004 and 2007) of ten member states from Central and Eastern Europe (CEE) have significantly increased the proportion of the European Union's (EU) population that lives in rural areas. Currently, 93 per cent of EU territory is classified as rural (CEC, 2006). This, combined with an increase in public concern over food safety, food quality, animal welfare, and the preservation of nature and countryside, gives rural development renewed salience and visibility.

The Common Agricultural Policy (CAP) retains its position as the largest component of EU expenditure, accounting for approximately 42% of the total EU planned budget for the period 2007-2013. Given its importance, it was recognised that agriculture and rural development would present a special challenge for the accession of states from CEE (BALDOCK ET AL., 2001; BUCKWELL ET AL., 1995). Previous reforms of the CAP have increased the administrative complexity and capacity required for effective implementation in both established and new Member States. While previous enlargements of the EU have been significant for agricultural and rural policy, and induced reforms to the CAP, the CEE accessions have been qualitatively different due to the number of candidate countries, their socio-economic characteristics and the historical legacy of socialism. This paper argues, therefore, that the CEE accessions presented a different set of problems for European integration, compared to previous enlargements, requiring a process of mutual adaptation and adjustment between EU agricultural and rural policy and the NMS, particularly in terms of the latter's politico-administrative arrangements. However, rather than integration through mutual adaptation, a process of *policy penetration* has occurred, leading to a poor match between the CAP and the real rural development needs of the NMS.

The paper analyses the process of transferring EU agricultural and rural policy to the NMS and details why the CAP is not targeted effectively at these new countries. It is organised as follows. Section 2 presents an overview of relevant theories of European integration which offer typologies of policy emulation and transfer. This is used as a basis for classifying the transfer of the CAP to CEE. Section 3 details the recent reforms of the CAP and how applicant states were prepared to take on the obligations of membership regarding agricultural and rural policy. Section 4 outlines four key reasons why the CAP is not targeted effectively to CEE, namely (i) the lack of convergence between the socio-economic conditions of rural areas in the NMS and those in established Member States, (ii) differences in farm structures in terms of both size and organisational type, (iii) an inappropriate balance of resources between Pillars I and II of the CAP, and (iv) inadequate capacity to implement rural development measures in the NMS. Concluding remarks are drawn in Section 5, highlighting how insufficient reform prior to accession is likely to entrench, at least in the short to medium term, a farm-centric rural development policy in CEE, delivering minimal benefits for those most in need, and hindering wider adjustment of EU rural policy.

2. Theories of European Integration

European integration has been defined as a process leading to the homogenisation of economic and political structures at the EU level (PAGE, 2003). It can, therefore, proceed through *widening* (new countries acceding to the EU) and/or *deepening* (amongst existing Member States). After the collapse of communist regimes, CEE countries were offered the possibility of accession to the EU. However, this opportunity was accompanied by two conditions. First, that accession would be conditional on meeting criteria defined by existing members and, second, that it was the task of applicant states to adapt to EU policy structures and criteria.

At the 1993 Copenhagen European Council formal accession conditions were announced, stating that candidates must have 'the ability to take on the obligations of membership including the aims of political, economic and monetary union' (EUROPEAN COUNCIL, 1993). Subsequently, candidate countries were informed that applications for membership would be judged on their administrative capacity to implement the full body of the *acquis communautaire*, the EU's legislative corpus (GRABBE, 2001). Applications would thus be judged on what JACHTENFUCHS (1995) calls 'soft criteria' (commitments to democracy and a market economy) and 'hard governance' (successful adjustment of administrative structures to ensure the harmonious operation of EU policies). Monitoring the progress of candidate countries in meeting the criteria for membership was largely devolved to the European Commission (EC), giving it greater leverage to shape institutional development and policy-making in candidate countries than in existing Member States (GRABBE, 2001; DIMITROVA, 2002). The accession of CEE states therefore 'raised the bar' (JACOBY, 2004) in terms of conditionality and inflexibility compared with previous enlargements. Given this approach, at the centre of the CEE accession process has been an emulation of Western European institutions.

In analysing the process of emulation, JACOBY (2004) identifies four modes through which CEE elites have tried to emulate Western European institutions: *copying* (policy borrowing), *templates* (using Western European models as a loose approximation rather than detailed blueprint), *thresholds* (meeting minimum standards) and *patches* (faithful, unaltered transfers such as incorporation of specific legal texts into national law). While JACOBY (2004) conceptualises patches as involuntary transfers, this may not be the case in all instances. In explaining the strategies adopted, he argues that emulation is not homogeneous, and decisions to follow different modes of emulation reflect varying constraints imposed by supranational actors and elite preferences in CEE. In particular, JACOBY (2004) hypothesises that penetration through patches is the most likely form of emulation where there is: a high determinacy of rules (more "legalised" and binding in status), a disparity of power between the emulator and emulated, and resistance to mutual learning and adaptation in the lead agent.

Alternatively, BENNETT (1991) outlines four distinct processes (elite networking, emulation, harmonisation and penetration) through which integration may occur. *Elite networking* may promote integration by fostering the existence of shared ideas and mutual learning. Under this mechanism no one actor takes a lead or is designated as a role model; rather, experiences and ideas are shared between equals. *Emulation*, in contrast, refers to the utilisation of evidence about a 'model' foreign programme(s) and drawing lessons from that experience to reshape domestic policy goals, content or instruments. This is similar to JACOBY'S (2004) conceptualisation of emulation. However, for BENNETT (1991), more formal, institutional alignment may occur through two other mechanisms. Convergence through *harmonisation* depends on the existence of intergovernmental and supranational instruments for the performance of specific tasks which are entered into on a co-operative basis. BENNETT contrasts this with convergence through *penetration* which is largely coercive, with states forced to conform to actions taken elsewhere by external actors. Penetration is thus analogous to patches in JACOBY'S terminology.

It is important, however, to distinguish between legal and practical emulation. Candidate countries have had minimal leeway in the implementation of EU regulations. As a result, vast swathes of EU law, for which the CEE countries played no part in the preparation or decision-making, have been downloaded at the national level, bypassing the normal legislative process (ELLIOTT, 2005). Moreover, the existing EU legislative corpus reflects West European problems, interests and experiences with little regard for non-members. EU agricultural policy consists largely of regulations. In this regard, although the EU does not mandate a particular organisational structure for distributing CAP payments at the Member State level (BULLER, 2002), implementation of the CAP in CEE can be characterised by a high determinacy of rules, which promotes emulation through *patches*. However, for EU directives, which are the main governance mechanism in less integrated sectors (e.g. environmental policy), the EU has not prescribed specific administrative solutions to cope with their practical implementation (LIPPERT ET AL., 2001). This has given the NMS greater freedom in choosing their administrative responses in certain policy domains.

3. Reform of the CAP and its transfer to CEE: Integration by Penetration

As the nature of agricultural and rural policy in the NMS is tightly bound to the reform of the CAP, this section outlines the main features of the process, with the timeline summarised in Table 1. By the early 1990s the CAP accounted for over 60 per cent of

EU expenditure, with support principally in the form of market measures (price support, storage and withdrawals of surplus products, and export refunds). The 1992 (MacSharry) reform introduced direct payments to farmers as a transitional measure to compensate them for cuts in intervention prices. This reform was primarily motivated by a desire to correct internal market imbalances, stabilise the budget and meet the EU's WTO (World Trade Organisation) commitments. Future accession of CEE played a minimal role in the process. Indeed, the EC's subsequent view was that direct payments were not applicable to farmers in the NMS. However, as direct payments became a permanent feature of agricultural support, this argument was untenable. Currently, direct payments to farmers account for approximately 78 per cent of the agricultural measures of the CAP. The main instrument of the CAP in the enlarged EU, therefore, was not motivated by the agricultural and rural development needs of CEE.

[TABLE 1 ABOUT HERE]

The next major reform of the CAP, known as Agenda 2000, in contrast, was motivated by a desire to prepare the EU for CEE enlargement. The main focus was on the budgetary implications of enlargement, with an agreement reached at the Berlin European Council in 1999. Agenda 2000 extended the reductions in intervention prices (for cereals, beef and dairy products), which were partially compensated by rises in direct payments, and attempted to redefine the role of the CAP. It established rural development policy as a second pillar of the CAP alongside the EU's agricultural market policy (Pillar I). A new Rural Development Regulation (RDR) was intended to provide the framework for Pillar

II support, which incorporated all previous (nine) instruments (e.g. agri-environmental measures, forestry, Less Favoured Areas (LFA) payments, and investment in farm modernisation) into a package of measures for the whole EU. While the RDR was officially regarded as the future of the CAP (RÂMNICEANU AND ACKRILL, 2007) and a means of delivering 'multifunctionality', it was overwhelmingly linked to measures for which farmers were the main beneficiaries. To implement the RDR, Member States were tasked with developing (at national or regional level) their own Rural Development Programmes, according to their specific characteristics and needs of rural areas, drawing from the EU menu of support measures (WARD AND LOWE, 2004). Despite the RDR being promoted as the way ahead, only 10% of CAP expenditure was allocated to it for 2000-2006. While Agenda 2000 was motivated by a desire to accommodate enlargement, the CEE states had minimal influence in guiding the reforms or influencing the menu of instruments contained in the RDR.

In parallel, in preparation for accession, Agenda 2000 initiated two additional pre-accession financial instruments, namely ISPA (Instrument for Structural Policies for Pre-Accession[1]) and SAPARD (Special Accession Programme for Agriculture and Rural Development). Designed to function on similar principles as those of the Guarantee Section[2] of the European Guidance and Guarantee Fund (EAGGF), SAPARD was created specifically to support the applicant countries (except Malta and Cyprus) to undertake structural changes and help them comply with the *acquis communautaire* concerning the CAP and related policies prior to accession (WILKINSON and KORAKAS, 2001). The instruments were designed for the NMS to implement the plethora of already existing EU measures, instead of promoting new national policy measures. Each candidate country was invited to develop its own national seven-year agricultural and rural development plan (2000-2006). A maximum amount of €520 million per year (1999 prices) was allocated for all ten countries for the period 2000-2006[3], with Poland (32%) and Romania (29%) as the biggest recipients, and Slovenia (1.3%) the smallest. Priorities were to be defined by each country in accordance with its needs and circumstances, but from a set of 15 eligible measures established within the Community's framework. The EU contribution was set up to a maximum of 75% of the total eligible public expenditure and, for certain measures, could cover the entire costs. While programme plans differed from country to country, three measures were dominant for all countries: processing and marketing of agricultural and fisheries products (26% of expected total EU contribution); investments in agricultural holdings (22%); and development and investment of rural infrastructure (21%) (CEC, 2001).

The process of establishing operational SAPARD paying and implementing agencies, however, took far longer than initially expected. In part this reflected a lack of managerial and technical capacity of CEE national governments to implement CAP-like measures. As delays lengthened, the main priority shifted from implementing a broad set of rural development measures to focusing on creating robust national paying agencies (ELLIOTT, 2005). As a consequence, most attention was given to the implementation system for direct payments to farmers and food processors (to improve competitiveness), rather than to budgetary less important and administratively more complex rural development measures, such as agri-environmental schemes. Delays in implementation and the potential loss of all allocated EU funds forced NMS to revise their choices by focusing on a smaller number of measures which administratively were simpler to implement. For example, the initial SAPARD Hungarian programme was reduced from eight to three measures: investment in agricultural holdings; processing and marketing of agricultural products; and development of rural infrastructure. The first two measures received the bulk of funds, distributed in the form of capital grants to farmers and food processors. The five measures which were dropped (diversification into non-farming activities, renovation of villages and cultural heritage, creation of producer groups, environmentally friendly agricultural practices and vocation training) were more complicated to administer and would have depended on local collaboration and the involvement of non-agricultural actors. The provisional budget for these five measures was reallocated to the retained instruments. This pattern of reducing the number of SAPARD measures was repeated in other acceding states (ELLIOT, 2005). The overall effect was to further reinforce the centrality of farm-centric measures in the NMS.

In the countries that acceded in 2004, a Temporary Rural Development Instrument (TRDI) was implemented until 2006. The TRDI was targeted to support four accompanying measures (agri-environment, early retirement, afforestation and LFA payments) and a number of small-scale measures specifically introduced for these countries, such as developing producer groups, support for semi-subsistence farms, technical assistance and complements to direct payments.

With 2004 enlargement imminent, the Mid-Term Review (MTR) (2003) sought to provide a framework for post-enlargement CAP. Regarding Pillar I, the most important change was the decoupling from production of direct payments, with farmers receiving a single payment based on historical entitlements, a flat rate or a hybrid basis. The reform also strengthened rural development policy by transferring some funds from Pillar I to Pillar II through modulation of direct payments, making cross-compliance compulsory, and adding new measures such as the promotion of food quality, animal welfare and assistance for farmers to comply with new EU standards (CEC, 2006).

As part of final accession negotiations, the EU terms were that direct payments would be introduced after accession in the NMS but at a lower initial rate. This critical decision regarding the distribution of CAP resources to CEE was finalised in a Franco-German deal on the eve of the Brussels European Council in October 2002. It reflected domestic political pressures concerning agriculture and finance in the two most powerful established Member States (RUANO, 2005). The outcome was to minimise the impacts of the agricultural policy reform for the main current beneficiaries of the CAP while limiting the cost to the EU budget of its implementation in the NMS. While causing consternation in the NMS, acceding countries had little influence in these negotiations and the disparity in power between the emulator and emulated was clearly evident. Acceding states were presented with a "take it or leave it" package, with minimal options for gaining a greater share of EU resources. In effect their only "veto position" was to reject their main aspirant goal of full membership (PRIDHAM, 2008). In the first years of accession, direct payments are being phased in from a base of 25% of the level in the

EU15, rising in increments of 5% per annum. In addition, following compromises at the Copenhagen European Council in December 2002, the NMS are permitted to top-up EU direct payments with *national* funds, up to a maximum of 30% of the EU level (i.e. in the first year 55% of the EU15 level). This mechanism will allow the NMS to reach full parity with the EU15 by 2010 rather than 2013. All NMS have opted to pay top-ups to farmers. To bridge the unfavourable terms granted, the NMS are thus using their own funds plus the transfer of some non-agricultural funds into agriculture.

Recognising the difficulties of administrating direct payments in the NMS, acceding countries were offered the option to implement a simplified system of direct payments, known as the Single Area Payment Scheme (SAPS). Under the SAPS, farmers in the NMS receive a flat-rate, per-hectare payment irrespective of what is produced, as long as their land is maintained in good agricultural condition. The level of payment is based on the total amount of direct payment funds available for a given country in a particular year divided by the eligible utilised agricultural area. All of the NMS from CEE, apart from Slovenia, have opted for the simpler SAPS.

In September 2005, the European Council adopted Council Regulation (EC) 1698/2005, a new RDR for the financial programming period 2007-2013. It focuses on three key elements: the agri-food economy; the agri-environment; and the rural economy and population. Rural policy is linked to four major Axes: (i) improving competitiveness of the agricultural and forestry sector; (ii) improving the environment and the countryside; (iii) quality of life in rural areas and diversification of the rural economy; and (iv) Leader

(Article 2.3, Council Decision, 2006/144/EC). The minimum and maximum share of EAFRD funds which can be distributed between Axes are detailed in Table 2.

[TABLE 2 ABOUT HERE]

As with the previous RDR, Member States are obliged to draw up their strategy plans, "at the most appropriate geographical level", justifying their choice of measures from the menu of agricultural and rural development schemes available under the four Axes, based on the rural development needs of particular regions. The programme therefore grants a degree of flexibility on the choice of measures, but from a common menu. An overview of finalised plans for EU Member States is provided in Table 3.

[TABLE 3 ABOUT HERE]

In CEE, on average, the largest allocation of RDR funds is to Axis 1 (competitiveness of agriculture and forestry), mainly in the form of capital grants. The main environmental measure funded under Axis 2 in the NMS is Less Favoured Area (LFA) payments to farmers. Quality of life and diversification of the rural economy will, on average, receive less than one-fifth of RDR spending in the NMS.

In summary, while accession of the CEE countries did influence reform of the CAP from the late 1990s onwards, the debate was principally focused around the implications for the EU budget and WTO commitments. Accession did not prompt a widespread review of the purpose of, and mechanisms for, agricultural and rural policy. This reflected resistance to mutual adaptation in the emulated agent, particularly the main beneficiaries of the CAP amongst established MS. This was compounded by the principle that it was the task of accession countries to adjust to the EU. The centrality of Pillar I and its main instrument, direct payments, were not questioned and even under Pillar II 'farm-centric' measures predominated. While the RDR has allowed NMS some flexibility in allocating resources between measures, this is still from a common menu, and it has not addressed what are the fundamental problems facing the NMS or the meaning of rurality in those countries (Kovách, 2004). The main adjustment for the NMS has been not in terms of principles or mechanisms of rural policy, but the lower rate of direct payments granted, a decision that reflected the balance of power in established MS.

4. Why the CAP is Poorly Targeted at CEE

4.1 Lack of convergence in the socio-economic conditions of rural areas in NMS and established member states

Emulation through patches or policy transfer via penetration will be most appropriate where there is a set of common objectives and problems, linked to similar socio-economic conditions. This was tacitly acknowledged in the criteria for EU membership, which stated that acceding states must demonstrate an economic capacity and robustness to fulfil the obligations of the *acquis*. Economic growth in the last decade has, on average, been higher in the NMS than in existing Member States (ÅSLUND AND DĄBROWSKI, 2007). This has been used as evidence of catch-up and convergence between the two blocks of countries (ÅSLUND AND DĄBROWSKI, 2007), indicating the

NMS readiness for fulfilling the obligations of membership. However, much of this growth in the NMS has been concentrated in, and around, capital cities. For instance, while between 1995 and 2003 the average annual growth in GDP for Poland as a whole (excluding agriculture) was 4.4 per cent, in the most rural territories (*voivodships*) the respective figure was only 2.1 per cent (EUROSTAT, 2005).

It is informative to compare rural areas between the new and established Member States (EU15) on key socio-economic indicators. This, however, is not straightforward due to the lack of a commonly accepted definition for 'rural'. Nevertheless, reasonably detailed data are provided by the European Commission for 'predominantly rural' areas in all Member States (CEC, 2006). These predominately rural areas are defined, according to the OECD method, as having more than 50% of the population in the given territory living in rural units with less than 150 inhabitants per km^2.[4] Whilst the definition of rural can be debated, this at least allows an inter-country comparison using an official, common set of recent data.

The indicators in Table 4 are averages (mean values) for the NMS and EU15. Whilst these mask variation within the two groups, they allow the identification of points of broad similarity and dissimilarity between the established and new members. Most of the indicators are relative measures (e.g. share of population), but a few absolute measures are also included (e.g. population density). For each indicator the ratio of the means is also presented, the rationale being that the closer the ratio to unity, the more similar are the established and new member states with respect to that indicator. In addition, the coefficient of variation (COV) is calculated as a relative measure of the extent of variation in indicator values between member states within each group. The lower the COV, the smaller is the variation in the individual values, and therefore the more similar are the member states within the group with respect to that indicator.

[TABLE 4 ABOUT HERE]

Differences between the two groups are striking. The share of total employment in the rural areas of the NMS is over twice that of the EU15. However, Gross Domestic Product (GDP) per capita in these areas is only 40 per cent of the EU15 level. Despite the greater relative importance of rural areas in terms of overall employment, economic activity rates in the NMS are lower, with unemployment much higher. The long-term unemployment rate is over twice as high in the NMS compared to the EU15. This underlines the difficulties of structural change in the post-socialist countries, which remains an on-going and serious challenge. It should be remembered that the comparison here does not include capital cities and other urban conurbations in Western Europe, but is solely between predominately rural regions in the EU15 and NMS.

In many rural regions in the NMS poverty is endemic. For instance, in Romania, in 2000, 48% of rural inhabitants were classified as living in poverty according to the World Bank (2007), representing over 70% of the country’s poor. In contrast, the corresponding poverty rate for urban areas was 26%. The development literature would suggest that lifting people out of poverty depends on, amongst other things, education, vocational training, development of the Non-Farm Rural Economy (NFRE) and the provision of microfinance (VAN DEN BERG, 2001). However, this is not the primary nature or focus of the CAP.

Regarding the structure of employment in the predominantly rural areas, the NMS and EU15 are similar in terms of the share of labour employed in the secondary sector (manufacturing) (Table 4). The two groups, however, do vary significantly in terms of the importance of the tertiary (service) sector, which is far more developed in the EU15. This in part reflects differences in purchasing power. The share of employment accounted for by the primary sector, which is overwhelmingly agriculture, is over twice as high in the NMS than in the EU15. Agriculture's share of Gross Value Added (GVA) in rural areas is also significantly greater in the NMS, albeit with much lower absolute figures. As mentioned, the averages in Table 4 will mask similarities and differences in the indicators for individual countries, depending on the degree of variation and overlap in the groupings. For example, the percentage of primary sector employment in Slovakia (8%) is less than the average of the EU15 (10%), whilst that for Greece (32%) is more than the average of the NMS (23%).

The percentage of territory classified as predominantly rural is almost the same for the two groups - 57% for EU15 and 54% for NMS - although again this masks inter-country differences; the two countries with the largest and smallest shares are both established member states - Ireland (99%) and the Netherlands (3%). Average population density in rural areas is twice as high in the NMS, at 68 inhabitants per km^2, although the Netherlands, Germany and Denmark all have population densities which are higher than this, whilst Estonia and Latvia have densities which are less than the EU15 average (32 inhabitants per km^2). Notwithstanding, the share of the total population living in predominantly rural areas is more than double in CEE.

These socio-economic indicators suggest that a discernible difference exists between rural areas in the EU15 and NMS. Thus, the ability of the CAP, as currently constituted, to effectively address the needs of CEE is highly questionable. While not wanting to over-generalise the NMS in terms of the problems faced, it is notable that the COV values for the majority of the indicators point to relatively greater differences between the member states of the EU15 than between the countries of the NMS grouping.

4.2. CAP as support for a West European family farm model of agriculture

Farming in Western Europe is primarily a family business and EU agricultural policy has been tailored to, and reinforced, the predominance of family farms (GASSON and ERRINGTON, 1993; CHRISTIAENSEN and SWINNEN, 1994). Both the Agenda 2000 and MTR CAP reforms sought to safeguard family farms, and medium-sized farms have been perceived as integral to the 'European Model of Agriculture' (CARDWELL, 2004).

By contrast, due to their socialist legacy, the NMS have been characterised by historical absence of such medium-sized family farms, and have a more diverse set of actors engaged in agriculture than is present in most established Member States. During the socialist era, the majority of states in CEE were characterised by a bi-modal farm structure, of large co-operatives and state farms, supplemented by subsidiary household plots. The average size of the collectivised farms was typically between 2,000 and 3,000 hectares (ha), which far exceeds the size of conventional commercial farms in the EU15.

In some NMS (Slovakia, Czech Republic, and to a lesser extent, Hungary), large corporate farms, which originate from the state and co-operative farms of the socialist era, persist. Western Europe lacks an equivalent farm type. At the other end of the spectrum, other NMS (Poland, Baltic States, Romania and Bulgaria) have very fragmented farm structures. This is either because agriculture was never extensively collectivised or the outcome of radical de-collectivisation and restitution of land to previous owners. In these states, the vast majority of farms are less than 5 ha in size, poorly capitalised and provide low returns to family labour. In Romania at the time of accession, over 2.5 million people were still employed in primary production and the average farm size was 3.2 ha. Similarly, the 2003 Bulgarian Agricultural Holdings Census estimated that 77% of total holdings were less than 1 ha in size (MAF, 2003). While many predicted that such small farm units would disappear quite rapidly, structural change has been slow (GUS, 2001).

The structure of farming in CEE has generated several difficulties for the adoption of the CAP in the NMS. To implement the CAP required the NMS to have comprehensive systems for paying direct payments, an instrument of agricultural policy which had not been used during the socialist and immediate post-socialist era, and a complete land register on which to make payments. While the latter is taken for granted in Western Europe, the upheavals of the 1990s and often complicated land reform, left many NMS with woefully inadequate systems. These difficulties strongly influenced EU policy toward the NMS.

Given the distribution of farm sizes, the NMS were confronted with the possibility of implementing a complex set of CAP measures leading to the payment of relatively small sums to a mass of small-scale farmers, with some large corporate farms receiving very considerable and highly visible transfers. As part of the SAPS regulations, the minimum size of a parcel of land that can be considered eligible for a direct payment is 0.3 ha. Nonetheless, NMS could choose a higher threshold, up to a limit of 1 ha. In practice, all CEE Member States have chosen 1 ha as the minimum eligible size. Below this threshold, payments were likely to be less than €50 per farmer per year and the administrative burden was deemed too great. While plots below 1 ha in most NMS do not make a substantial contribution to livelihoods, this is not universally true. In Bulgaria and Romania, plots of 0.5 ha can provide the main source of income for households in remote rural villages (KOPEVA ET AL., 2003; PETROVICI and GORTON, 2005). In Romania, about half of the four million 'household farms' operates on less than 1 ha, making them ineligible for EU direct aid (HUBBARD and THOMSON, 2007). Persons with the lowest incomes in rural CEE are the landless poor and those restricted to small-scale plots located in regions without good employment prospects in the non-farm rural economy (PETROVICI and GORTON, 2005). It is these vulnerable groups who will benefit least from the introduction of CAP direct payments.

At the other extreme, the continuing presence of large corporate farms in some NMS suggests that as direct payments in the NMS align to those in the EU15, these farms will receive substantial transfers. For example, data for Romania[5] indicate that the very large-scale farms (over 1,000 ha) which represent less than 0.5% of total number of farms will be eligible for 21% of total (national and EU) direct aid in 2008. As CAP direct payments are paid to farm holdings, their use is at the discretion of the corporate farm managers. Preliminary evidence suggests that some of this income will be transferred to individual landholders who lease land to corporate farms, many of whom (re)gained entitlements under post-socialist land reform programmes and have few current connections with agriculture, with the rest retained for capital investment (LATRUFFE and DAVIDOVA, 2006). The leakage of such payments outside of agriculture and rural areas is therefore likely to be significant.

4.3 The balance between Pillar I and Pillar II

As direct payments are being introduced incrementally in the NMS, the percentage of total CAP support accounted for by Pillar II measures is currently higher than in the EU15. However, as direct payments increase, the NMS will increasingly resemble existing Member States in terms of the predominance of Pillar I. For instance, the total planned EU27 expenditure for direct payments, between 2007 and 2013, is almost four times larger than planned rural development expenditure. It is useful, therefore, to reflect on the likely impact of direct payments, the main Pillar I instrument.

CHAPLIN ET AL. (2004) surveyed farmers in the Czech Republic, Hungary and Poland to determine their likely strategies under different policy scenarios. Results indicate that as farmers view direct payments as an income support measure, their provision decreases the likelihood of farm households diversifying by creating new, non-agricultural businesses or entering the labour market. In this regard, the introduction of direct payments therefore works against development of the wider NFRE and Axis 3 of the RDR (diversification of the rural economy).

The income effect of direct payments in CEE is likely to be substantial. For example, in Hungary, in 2005, agricultural subsidies under the SAPS far outweighed farm income, i.e. without subsidies farm incomes, on average, would have been negative (HUBBARD *ET AL*., 2007). Moreover, there was a change in the distribution of subsidies in favour of large arable farms at the expense of mixed and livestock farms. That the adoption of the CAP will have significant distributional impacts on farm income, of most benefit to relatively large farms, is also identified by FIRICI (2003) for Romania.

4. 4. Administrative capacity

In general, non-agriculturally based rural development policy has historically been less developed in the NMS than in the EU15. During the socialist era, some CEE countries, such as Czechoslovakia, pursued policies of rural industrialisation (WARNER ET AL., 1999) as part of a strategy of creating a rural proletariat, while for others, such as Hungary, objectives were less pronounced, with the fortunes of rural areas depending largely on the prosperity of state and collective farms (ENYEDI, 1976). In all countries, local governments in rural areas were weak. This persisted after the collapse of communist regimes as economies contracted and rural development issues lacked national prominence.

During the mid-1990s rural development departments of Ministries of Agriculture in the NMS were typically peripheral entities controlling few resources and having little influence (ELLIOTT, 2005). This is apparent regarding both environmental schemes and programmes to stimulate the NFRE. Concerning the former, while the NMS have a long history, and extensive network, of protected areas, these have largely been controlled through 'command and punish' measures, with very little experience of payments for the provision of environmental goods and services. Moreover, the productionist tendencies that predominate in most NMS Ministries of Agriculture have tended to override environmental agencies, with NGOs similarly having little influence (ZELLEI ET AL., 2005). As part of SAPARD, agri-environmental schemes were included as a compulsory measure, but this was due to pressure from Western NGOs and the European Commission rather than enthusiasm from NMS. Productionist mindsets still dominate most Ministries of Agriculture in CEE and this has strongly influenced the allocation of RDR funds, as it is these Ministries which are tasked with constructing the plans. While individual countries have to justify their RDR plans, non-farming related interests are poorly represented and have struggled to be effectively included (ELLIOT, 2005). Within Ministries of Agriculture and their main constituency (producer organisations) the main criticism has not been typically with a protectionist, farm-centric CAP, but with their initially restricted access to the 'full benefits' of farm support. In the majority of NMS, the largest share of RDR funds will go to Axis 1 measures (competitiveness of agriculture and forestry) and in the three states where Axis 2 (environment) is the largest recipient of support (Czech Republic, Slovakia and Slovenia), LFA payments predominate.

The NMS have had to develop their capacity in EU rural development measures through three instruments. First, during the pre-accession period, SAPARD, then, between 2004 and 2006 the TRDI and, for the period 2007-2013, implementation of the RDR. Experiences from the first two sets of measures suggest that capacity to implement agri-environmental schemes and measures to stimulate NFRE remained weak. Accreditation of SAPARD agencies proved more difficult than expected, and agri-environmental and non-farm measures were dropped from most plans, with resources reallocated to agricultural-oriented measures (ELLIOTT, 2005). Moreover, only 62% and 68% of Community finances available under SAPARD and TRDI for the period 2000-2005 were actually utilised.[6]

As capacity to implement Axes 2 and 3 measures remain weak, CEE countries have looked to administer them in the simplest manner possible, which may not be in keeping with their intended outcomes. For instance, expenditure under Axis 2 (environment) is often accounted for by LFA payments. These are directed at farmers and paid on a simple per hectare basis. They, thus, reinforce the allocation of spending to larger farmers; in the Czech Republic over half of LFA payments go to farmers with in excess of 1,000 ha (ŠTOLBOVÁ, 2007). Such payments are largely viewed by recipients as top-ups, but insufficiently fine-tuned to support the provision of specific biodiversity and environmental objectives (ŠTOLBOVÁ, 2007). Environmental NGOs (IUCN, 2004) are concerned that such payments may prove to be counterproductive by supporting more intensive production. For example, in Slovenia, the net effect of implementation of the

CAP is to provide greater incentives for intensive production with fewer restrictions than alternative low input or organic regimes (IUCN, 2004).

As part of the pre-accession process candidate countries were also subject to a screening process that assessed the degree to which the national law was in accordance with the Community law. This meant that progress was monitored primarily in terms of legal harmonisation rather than practical socio-economic outcomes, this reinforcing the process of adjustment to the pre-existing rules.

Implementing the fourth axis also remains a major challenge given the general lack of experience with Leader-style programmes in the NMS. This has been reflected in the rules governing Axis 4: for the NMS (except the Czech Republic) the minimum Community financial contribution of 5% may be phased in over the programming period in such a way that for this axis only 2.5% of the EAFRD total contribution is allocated to it during the period 2007-2013. Nevertheless, under Leader, NMS may be able to promote new rural development ideas (KOVÁCH, 2000), and it may provide a framework for stimulating bottom-up development (RAY, 2000).

5. Concluding Remarks

The transfer of the CAP to the NMS of CEE has been characterised by emulation through patches and integration via penetration. While the accession of CEE did influence recent reform of the CAP, this was based largely on budgetary considerations. The main instruments of policy, particularly direct payments, were not fundamentally questioned. In part, this reflected the EU's initial stance that it was the task of acceding countries to adjust to the EU, rather than a form of mutual adaptation. This means that CEE enlargement has been a missed opportunity for reforming the CAP into an appropriate pan-European policy.

JACOBY (2004) argues that emulation through patches is the most likely outcome when there is a high determinacy of rules, significant disparity in power between emulator and emulated and a resistance to mutual learning and adaptation in the lead agent. All three factors can be identified in the transfer of the CAP to CEE. Reform of the CAP to accommodate CEE accession has been far less radical than initially envisaged (BUCKWELL ET AL., 1995), with the most significant adaptation being in the initial level of direct payments granted to NMS. The latter has shifted the costs of accession toward the NMS. Despite the unprecedented scale and scope of the CEE accession, the pattern of incremental reforms to agricultural policy has, therefore, mirrored that of previous enlargements (RUANO, 2005). Only the minimal adjustment required to preserve the current policy regime has been undertaken. Incremental rather than rational reform has prevailed.

While JACOBY sees policy transfers through patches as involuntary, one must also note the degree of support for CAP-style protectionism within CEE Ministries of Agriculture and their immediate constituencies. Amongst the CEE agricultural policy community, the CAP does have widespread legitimacy and, in the terminology of CHECKEL (1999), resonance. By granting the task of drawing up RDR plans to national Ministries of Agriculture, which traditionally have weak capacity in administering non-agricultural programmes, the 'farm-centric' bias is reinforced. This is leading in several cases to implementation of Pillar II in a manner which puts intended outcomes in question.

The analysis indicates that emulation through patches and policy transfer via penetration was inappropriate for four main reasons, beginning with the striking and longstanding differences in socio-economic conditions within rural areas between the EU15 and NMS. In most of the NMS the main challenge for rural development should be poverty alleviation, via improving education, vocational training, provision of microfinance and developing the NFRE. While such instruments may obtain some funding under Axes 3 of the RDR, in practice, expenditure on this stream is minor compared to farm-centric measures. Moreover, as direct payments increase over time, the imbalance between Pillars I and II will grow. The CEC (2002, p.7) ascribe to direct payments "a central role in ensuring a fair standard of living and stability of income for the agricultural community." It is questionable whether this assistance, which is based on a family farming model of agriculture, will deliver such welfare benefits in the NMS. Those that lack a 'fair standard of living' in rural CEE are either landless or restricted to small plots. The latter group will benefit least from the introduction of direct payments, typically being ineligible. The main gainers from Pillar I will be large, corporate farms, and it is unclear whether transfers to such institutions will trickle down to small-scale land owners. While the RDR has therefore attracted much attention for giving Member States a degree of flexibility in choosing measures from a menu of options, the greater financial importance of Pillar I should not be ignored. It is likely that some outcomes of increasing direct payments will work against the objectives of Pillar II, such as stimulating the NFRE. Overall, the unwillingness of the EU to come to terms with the different underlying historical and socio-economic conditions of rural areas in the NMS has led to the implementation of a policy which is ill-suited for meeting its objectives in an enlarged Europe.

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Table 1: An overview of selected CAP Reforms

Measures	MacSharry Reform (1992)	Agenda 2000 (1997)	Mid-Term Review (2003)
Selected Measures related to Agriculture			
Direct payments	Introduction of compensatory payments to support farm income	Direct payments linked to production for specific arable crops and livestock	Single farm payment linked to environment, food safety and animal welfare
Price support reduction - cereals - beef - dairy products	 30% (over three years) 15% -	 15% 20% 15% for butter and SMP in three equal steps from 2005/06	 15% cut in three equal steps from SMP (2004-06) and 25% cut for butter (7% 2004-06 and 4% - 2007)
Modulation of direct payments to rural development	-	Optional reduction of direct payments up to 20% and money remain within the member states for accompanying measures	Compulsory - starting with a rate of 3% in 2005, 4% in 2006 and 5% from 2007; applied to farmers receiving above €5,000 direct payments.
Measures related to Rural Development			
	Introduction of accompanying measures: - Agri-environmental scheme - Early Retirement for farmers - Afforestation	Previous nine instruments packaged into one single framework (1257/1999 Council Regulation) – 22 measures Introduced CAP Pillar II (environmental and rural development [RD] measures) Increased financial resources for RD via modulation	Modulation funds used for RD from 2006; Increased the RD measures, by adding new measures to promote environment, food quality and animal welfare

Source: own construction

Table 2: Axes and Minimum Allocation from the EAFRD (%)

Axis	Thematic Area	Compulsory Minimum of EU co-financed expenditure	Maximum of EU co-financed expenditure
1	Improving the competitiveness of the agricultural and forestry sector	10	65
2	Improving the environment and the countryside	25	80
3	Quality of life in rural areas and diversification of the rural economy	10	65
4	Leader	5*	100% (provided min. allocation to each access is observed)

* Given its cross-cutting nature, the funds reserved for LEADER can also count for the three thematic axes

Table 3: Distribution of EAFRD Funding between Axes for NMS and EU15, 2007-2013

(%)

Country	Axis 1	Axis 2	Axis 3	Axis 4
Bulgaria	42	27	31	3
Czech Republic	23	54	18	5
Estonia	41	38	31	10
Hungary	48	32	14	5
Latvia	50	28	20	3
Lithuania	46	39	9	6
Poland	42	33	20	5
Romania	44	26	28	3
Slovakia	33	49	14	3
Slovenia	35	51	11	3
Average NMS	40	38	20	5
Austria	14	73	8	5
Belgium (Flanders)	68	17	9	6
Belgium (Wallonia)	48	40	8	6
Denmark	21	64	5	10
Finland	8	82	7	4
France (mainland)	38	51	6	5
Germany (average)	29	40	24	7
Greece	47	35	8	6
Ireland	11	79	10	0
Italy	41	43	10	6
Luxembourg	33	59	4	4
Netherlands	30	30	30	10
Portugal	48	4.1	0	11
Spain	50-55	35-40	10-15	10
Sweden	14	70	8	7
UK (England)	10	80	10	0
Average EU15	32	50	10	6

Sources: Council for the Rural Area (2008), Reports from National Ministries of Agriculture, and personal communication

Table 4: Socio-economic Indicators for Rural Areas in EU15 and NMS

(based on data for 2002-2004)

Indicator	Mean values		Ratio of means	COV*	
	EU15	NMS		EU15	NMS
Economic Indicators					
Overall employment (% of total)	14	33	2.4	165	57
GDP/capita (EU25 = 100)	87	36	2.4	18	38
Employment rate (%)	65	55	1.2	9	11
Employment in secondary sector (%)	28	30	1.1	16	24
Employment in tertiary sector (%)	62	47	1.3	13	14
Unemployment rate (%)	9	15	1.7	32	39
Long-term unemployment rate (%)	3	7	2.6	64	37
Agriculture Indicators					
Employment in the primary sector (%)	10	23	2.2	79	40
GVA in the primary sector (%)	5	9	1.6	58	60
GVA in primary sector ('000 m. Euro)	27	4	6.2	6	22
Farms <5 ha in size (%)	47	72	1.5	54	28
Farms <2 ESU (%)	34	74	2.2	51	19
Demographic Indicators					
Territory (% of total)	57	54	1.1	53	42
Population density (inhabitants/km^2)	32	68	2.1	135	39
Population (% of total)	16	38	2.4	159	50

Source: CEC (2006) and authors' calculations. * COV = coefficient of variation (i.e., [standard deviation/mean]*100). GDP is Gross Domestic Product; GVA is Gross Value Added; and ESU is European Size Unit.

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[1] ISPA followed a similar approach to the EU Cohesion Fund and targeted two areas of assistance, i.e. environment and transport infrastructure, aiming to assist candidate countries in economic and social cohesion.

[2] The Guarantee Section mainly finances expenditure on agricultural market organisations, rural development measures outside Objective 1 regions, and specific veterinary expenditure related to CAP. The Guidance Section focuses on rural development expenditure not financed by the Guarantee Section.

[3] In contrast, for the same period, the funds allocated through the Guarantee Section of the EAGGF for rural development for the EU15 represented €32,906 million.

[4] Cyprus, Luxembourg and Malta have no territory included in this definition. The data presented for the NMS relate to, at most, 10 countries.

[5] http://www.maap.ro/pages/page.php?self=01&sub=0104&art=0401&var=010401&lang=2

[6] Calculated from DG Agriculture and Rural Development, 2006.